EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 18 November 2005

at the request of Sveriges Riksbank
on draft regulations on interest cost remuneration for cash that has been separated and stored under a special arrangement

(CON/2005/48)

1. On 6 October 2005 the European Central Bank (ECB) received a request from Sveriges Riksbank for an opinion on draft Riksbank regulations on interest cost remuneration for cash that has been separated and stored under a special arrangement (hereinafter the 'draft regulations').

2. The ECB's competence to deliver an opinion is based on the second and third indents of Article 2(1) of Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions[1], as the draft regulations concern means of payment and Sveriges Riksbank. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

3. The draft regulations contain the conditions for providing interest cost remuneration to undertakings which, either for themselves or on behalf of others, separate and store banknotes and coins. The remuneration is payable to defined depository owners that have entered into an interest cost remuneration agreement with Sveriges Riksbank. The level of remuneration is based on the depository owners' daily reports to Sveriges Riksbank on the nominal value of cash stored in the depository.

4. Sweden is a Member State with a derogation and the ECB requirements regarding the organisation of national cash cycles in Member States that have adopted the euro do not currently apply to Sveriges Riksbank. However, since these requirements will apply to Sveriges Riksbank as soon as Sweden adopts the euro and Sveriges Riksbank becomes a fully integrated part of the Eurosystem, the ECB wishes to take this opportunity to indicate the status of cash handling within the Eurosystem.

1 OJ L 189, 3.7.1998, p. 42.

5. In Opinion CON/2004/28[2], the ECB commented, *inter alia*, on a proposal to amend the Sveriges Riksbank Act by introducing a clarification that Sveriges Riksbank could carry out its tasks with regard to the distribution of banknotes and coins in cooperation with third parties. Moreover, the amendments to the Sveriges Riksbank Act included an enabling provision to the effect that Sveriges Riksbank could compensate or provide credit free of charge to entities that separate and store banknotes and coins in accordance with its instructions. The draft regulations now under consideration are intended to promote the separation and storage of cash in bank-owned depots, which is expected to reduce the number of transports to Sveriges Riksbank and thereby make cash handling in Sweden more efficient and safer (due to the reduction of the risk of robbery). The ECB understands that the proposed interest cost remuneration from Sveriges Riksbank to the banks that separate and store banknotes is an essential incentive for these banks to open the depots and carry out this activity.

6. Within the Eurosystem, Article 106 of the Treaty establishing the European Community and Article 16 of the Statute of the European System of Central Banks and of the European Central Bank attribute to the ECB and the national central banks (NCBs) of the Eurosystem the task of issuing euro banknotes. This task is not limited to the act of putting euro banknotes into circulation, but extends to any act which has a bearing on the circulation of banknotes. When fulfilling this task, Article 105(1) of the Treaty and Article 2 of the Statute require the Eurosystem to act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources. The Eurosystem is currently in the process of elaborating and establishing a common policy regarding various responsibilities of the NCBs with regard to the cash cycle. As part of this process, existing national practices concerning the issue of banknotes will be taken into account as far as possible, in accordance with Article 16 of the Statute, as will the principle of decentralisation, in accordance with Article 12.1 of the Statute. Article 12.1 provides that, to the extent deemed possible and appropriate, the ECB shall have recourse to the NCBs to carry out Eurosystem operations. The elaboration and establishment of the common policy must also ensure that the ability of an NCB to carry out the operations forming part of the core tasks assigned to the Eurosystem under the Treaty will not be undermined. Consequently, as regards arrangements similar to the one to be introduced in Sweden by the draft regulations, the guiding principle is that within the Eurosystem, it must always be ensured (e.g. by regulatory or other effective means) that the central bank is, and remains, in a position to perform its tasks, in particular to ensure the smooth and efficient supply of euro banknotes and to maintain their integrity (including ensuring the quality and authenticity of euro banknotes in circulation), in line with the common Eurosystem policy currently established.

7. Under Article 7 of the draft regulations, depository owners must carry out authenticity checks on all cash in their depositories (other than new cash). The ECB understands that these authenticity

2 ECB Opinion CON/2004/28 of 31 August 2004 at the request of Sveriges Riksbank on two draft legal acts amending the Sveriges Riksbank Act concerning certain matters related to the circulation of banknotes and coins.

checks concern cash in its capacity as balances in the depositories, and that Sveriges Riksbank remains the authority of last resort for authenticating Swedish banknotes. Regarding the Eurosystem, in December 2004 the Governing Council endorsed a Framework for the detection of counterfeits and fitness sorting[3]. Whilst this Framework sets out, *inter alia*, certain harmonised standards on authentication and fitness checking to be applied by credit institutions and other professional cash handlers, Article 106 of the Treaty requires the Eurosystem central banks to remain the authorities of last resort for authenticating euro banknotes. In the Eurosystem this task cannot be assigned to any third party and the ECB therefore welcomes the fact that Sveriges Riksbank remains the authority of last resort for the authentication of Swedish banknotes.

8. This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 18 November 2005.

[signed]

The President of the ECB

Jean-Claude TRICHET

3 'Recycling of euro banknotes: Framework for the detection of counterfeits and fitness sorting by credit institutions and other professional cash handlers', published in January 2005; available on the ECB's website at www.ecb.int.